

## Message Text

SECRET

PAGE 01 STATE 012252

64

ORIGIN SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 R

DRAFTED BY EUR/RPE:WCLARK:FF

APPROVED BY EB: TOENDERS

S/P - WLORD

EUR - WSTABLER

EB - MR.KATZ

S/S - JMEALUM

TREAS.-CCOOPER SUBS

--

----- 076973

O 172335Z JAN 75

FM SECSTATE WASHDC

TO AMEMBASSY LONDON IMMEDIATE

S E C R E T STATE 012252

EXDIS

E.O. 11652:XGDS-1

-

TAGS: ENRG, EFIN, UK

SUBJECT: HAROLD LEVER'S IDEAS ON THE OIL MONEY PROBLEM

REF: LONDON 16506

1. WE BELIEVE IT WOULD BE VERY DANGEROUS FOR CONSUMING COUNTRIES TO ADOPT LEVER'S SUGGESTION AND CONSIDER SOME PACKAGE DEAL NOW WITH THE OIL PRODUCING STATES, INCLUDING INDEXATION, BEFORE THE CONSUMERS THEMSELVES HAVE DONE AS MUCH AS POSSIBLE TO STRENGTHEN AND CONSOLIDATE THEIR OWN POSITION. WE ARE MAKING REAL PROGRESS TO STRENGTHEN CONSUMERS, MOST NOTABLY THROUGH THE IEA, IN AREAS SUCH AS STEMMING THE DEMAND FOR IMPORTS, DEVELOPING NEW SOURCES OF SUPPLY, AND GREATER FINANCIAL SOLIDARITY. SUBSTANTIAL PROGRESS THIS WEEK HAS BEEN MADE IN THE AREA OF FINANCE, ESPECIALLY IN RECENT GROUP OF TEN AND IMF MEETINGS.

SECRET

SECRET

PAGE 02 STATE 012252

THE FAR-REACHING STEPS RECENTLY ANNOUNCED BY THE US ON

ENERGY POLICIES ALSO CONSTITUTE A VITAL ELEMENT IN AN OVERALL PROGRAM. HOWEVER, MUCH WORK REMAINS TO BE DONE AMONG CONSUMERS IN ALL AREAS.

2. ONE PROBLEM TO BE FACED IN MAKING ANY AGREEMENT WITH PRODUCERS IS THE DIFFICULTY IN MAKING SUCH AN AGREEMENT STICK BECAUSE OF THE DISPARITY AMONG THE PRODUCERS THEMSELVES.

DIFFERING INTERESTS AND OUTLOOKS MAKE IT NEARLY IMPOSSIBLE TO NEGOTIATE A TRULY COMPREHENSIVE AGREEMENT WITH ALL OF THEM. SINCE 1971 THESE DIFFERENCES HAVE BEEN EXPLOITED BY PRODUCERS TO TRANSLATE ANY CHANGE IN ANY ONE ELEMENT OF THE MANY CONTRACT TERMS AND CONDITIONS IN ONE COUNTRY INTO SWIFT ACROSS THE BOARD PRICE INCREASES BY OTHER PRODUCERS. IN THIS WAY, OIL PRICES HAVE INCREASED OVER THREE DOLLARS JUST IN THE PAST TWELVE MONTHS IN ADDITION TO THE LARGE INCREASES A YEAR AGO. THE OPPORTUNITIES FOR SUCH SALAMI TACTICS ARE ENDLESS AS LONG AS THE CONDITIONS EXIST WHICH PERMIT THEM TO GO ON.

3. YOU MIGHT POINT OUT TO LEVER THAT INDEXATION HAS IN FACT ALREADY BEEN TRIED TWICE BEFORE -- FIRST IN THE TEHRAN "FIVE YEAR" AGREEMENT IN FEBRUARY 1971 AND AGAIN A YEAR LATER AFTER THE FIRST DOLLAR DEVALUATION. IN NEITHER CASE DID INDEXATION WORK BECAUSE IN NEITHER CASE DID MARKET CONDITIONS EXIST TO MAKE IT WORK. THERE CAN BE NO ASSURANCES THAT ANY AGREEMENT WITH PRODUCERS, WHETHER OR NOT IT INCLUDES INDEXATION, WILL WORK NOW OR IN THE FUTURE UNLESS THE CONDITIONS EXIST TO MAKE IT WORK. FOR THIS REASON, WE REGARD DISCUSSION OF INDEXATION AS NOT PRACTICAL.

4. LEVER'S PAPER SEEMS TO IMPLY THAT INDEXATION SHOULD BE MADE AT THE CURRENT HIGH PRICE OF OIL. BECAUSE OF THE EXISTING CONDITIONS DESCRIBED ABOVE, ANY AGREEMENT ON INDEXATION ON THESE TERMS WOULD GIVE THE PRODUCERS AN ASSURED FLOOR AT CURRENT HIGH REAL PRICES WITHOUT GIVING CONSUMERS SUFFICIENT ASSURANCE EITHER THAT THE PRICE WOULD CONSTITUTE A REAL CEILING OR THAT REAL PRICES WILL EVENTUALLY DECLINE WHEN MARKET CONDITIONS CHANGE.

SECRET

SECRET

PAGE 03 STATE 012252

5. FOR ALL THESE REASONS, WE BELIEVE THAT THE NEXT STEPS IN MEETING THE MULTIPLE PROBLEMS RELATED TO ENERGY AND HIGHER OIL PRICES MUST BE IN DEVELOPING FURTHER CONSUMER SOLIDARITY. ONLY THEN SHOULD MEANINGFUL AGREEMENTS WITH PRODUCERS BE UNDERTAKEN.

6. FYI ONLY. WITHOUT RAISING QUESTION WITH LEVER

OR OTHER UK OFFICIALS, DOES EMBASSY BELIEVE LEVER PROPO-  
SALS ARE LIKELY TO BE RAISED DURING FORTHCOMING VISIT  
HERE OF PRIME MINISTER WILSON? END FYI. KISSINGER

SECRET

NNN

## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PERSONAL OPINION, PETROLEUM, CONSUMPTION, PRODUCTION, TRADE AGREEMENTS, FOREIGN POLICY POSITION  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 17 JAN 1975  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** johnsorg  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975STATE012252  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** WCLARK:FF  
**Enclosure:** n/a  
**Executive Order:** X1  
**Errors:** N/A  
**Film Number:** D750019-0665  
**From:** STATE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750141/aaaabjst.tel  
**Line Count:** 118  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ORIGIN SS  
**Original Classification:** SECRET  
**Original Handling Restrictions:** EXDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** SECRET  
**Previous Handling Restrictions:** EXDIS  
**Reference:** 75 LONDON 16506  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** johnsorg  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 25 JUN 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <25 JUN 2003 by ShawDG>; APPROVED <04 NOV 2003 by johnsorg>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** HAROLD LEVER'S IDEAS ON THE OIL MONEY PROBLEM  
**TAGS:** ENRG, EFIN, UK, US, (LEVER, HAROLD)  
**To:** LONDON  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006